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THE PRESIDENT'S 2012 BUDGET

President Obama last week unveiled his \$3.7 trillion 2012 budget to Congress. The President's budget is projected to reduce the national debt by \$1.1 trillion in the next 10 years through a combination of cuts, spending freezes and tax increases.

Under the President's budget, the deficit would rise to \$1.645 trillion in fiscal 2011, and then fall to \$1.101 trillion in 2012, trimming the deficit as a share of the U.S. economy to 3.2 percent by 2015 from 10.9 percent this year. The proposed budget includes freezing non-security discretionary spending for five years, saving more than \$400 billion over 10 years. Two-thirds of the deficit savings come from spending cuts and expected reductions in interest payments as the deficit declines. The rest comes from higher revenue, in part, as provisions in the Unemployment Insurance Reauthorization and Job Creation Act of 2010 on payroll taxes and jobless aid expire, and also as stronger growth lifts tax revenue.

The President's budget would:

- Invest \$148 billion for research and development - more than doubles energy efficiency research, development, and deployment funds.
- Simplify, expand and make permanent the research and development tax credit.
- Cut \$300 million from the Community Development Block Grant program.
- Cut \$78 billion in defense spending over five years.
- Cut more than \$1 billion in grants to large and medium hub airports.
- Cut \$947 million to states' revolving funds for water treatment plants and other infrastructure.
- Reduce Low Income Heating Assistance Program (LIHEAP) funding by about \$2.5 billion from an authorized 2009 total of \$5.1 billion.
- Eliminate 12 tax breaks for oil, gas and coal companies - estimated to raise \$46 billion over a decade.
- Limit the value of itemized deductions for families making more than \$250,000 a year.
- Provide for a two-year suspension of state interest payments on their debt and automatic increases in federal unemployment insurance taxes.

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The President's budget includes:

- \$2 million for maintenance dredging at Port Everglades through the U.S. Army Corps of Engineers.
- \$62 billion in healthcare savings over the next 10 years to pay for two years' worth of reimbursements lawmakers traditionally deliver in a so-called "Doc-fix" to ensure physicians keep seeing the elderly patients served by the Medicare program.
- \$227 million for the Treasury Department's Community Development Financial Institutions (CDFI) Fund, which provides capital to low-income communities and is targeting a portion of its funds to help bring grocery stores and other healthy food retailers to underserved urban communities.
- \$16.5 billion in loan guarantees, which help small businesses operate and expand.
- \$7.5 billion in guaranteed lending for commercial real estate development and heavy machinery purchases.
- \$3 billion in Small Business Investment Companies (SBIC) debentures to support new businesses and new jobs through early-stage and mezzanine small business financing.
- \$25 million in direct microloans, for intermediaries to provide small loans to emerging entrepreneurs and other borrowers unable to receive credit elsewhere.
- \$50 billion in transportation infrastructure investment, as part of its 6-year proposal for surface transportation reauthorization – more than 20 percent of this funding will go to supplement urban mass transit programs.
- \$30 billion over six years to fund a National Infrastructure Bank (I-Bank) which will invest in those projects nationwide that have the most significant impact on our national and regional economies.
- \$53 billion over six years in passenger rail, from a new dedicated rail account of the expanded Transportation Trust Fund.
- \$69.9 billion in 2012 (an increase of 70 percent from 2010 levels) and \$336 billion over six years for the Federal Highway Administration.
- \$150 million to create incentives for more communities to develop comprehensive regional and local housing and transportation plans that result in sustainable development, reduced greenhouse gas emissions, and increased transit-accessible housing.
- \$5 million to improve energy efficiency in HUD-assisted public and privately-owned housing through better energy use data collection and analysis.
- \$3.7 billion through the Department of Housing and Urban Development (HUD) to make progress toward the goal of the Federal Strategic Plan to End Homelessness.
- \$3.8 billion for state and local programs to equip, train, exercise and hire first responders.
- \$7.9 billion for discretionary nutrition program support – funding supports 9.6 million participants in the Women, Infants and Children (WIC) Program.
- \$30 million for the Byrne Criminal Justice Innovation Program, which supports the Administrations' multi-agency Neighborhood Revitalization Initiative by directing resources where they are needed in higher risk neighborhoods, integrating public safety, housing services and other investments.

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The President's budget also includes the following green energy initiatives:

- 1 million electric cars on the road by 2015.
- Double the share of electricity that comes from clean energy sources by 2035.
- Reduce building energy use by 20 percent by 2020.

The President's budget is the first step in a process that involves no less than 40 congressional committees, 24 subcommittees, countless hearings and a number of floor votes in the House and Senate. Congress never passed a budget for fiscal year 2011; the government has been running on funding from a Continuing Resolution passed at the end of last year; it expires on March 4, 2011.

2011 HOUSE APPROPRIATIONS BILL

The U.S. House Representatives, on February 19th, passed H.R. 1, the Full-Year Continuing Appropriations Act for FY 2011, by a vote of 235-189. The bill cuts nearly \$62 billion in non-defense discretionary spending compared to FY 2010 spending levels and \$100 billion less than the President's proposed FY 2011 budget. The bill, which would fund the federal government for the remainder of the fiscal year, makes significant cuts in domestic spending and, in some cases, eliminates funding for some federal programs. In addition, the bill rescinds significant federal funds appropriated in previously passed Congressional appropriations acts, including all Recovery Act funds that were unobligated as of February 11, 2011, \$100 million in unobligated construction funds under the U.S. Army Corps of Engineers (Corps) Civil Works Program, \$300 million in unobligated funds from Department of Environmental Protection Agency (EPA) programs, \$198 million in unobligated HUD Hope IV Program funds, \$130 million from HUD's Sustainable Communities Initiative, \$600 million in Department of Transportation funding for the Transportation Investment Generating Economic Recovery (TIGER) grant program, and \$2.5 billion in capital funding for high-speed rail projects.

Some of the more significant cuts in H.R. 1 (compared to FY 2010 funding levels) include:

- Corps' Civil Works Program - \$341 million for construction activities and \$56 million for investigations (studies);
- Department of Energy – Energy Efficiency and Renewable Energy Program - \$775 million, including no funding for the weatherization program, state energy program or the EECBG program;
- Environmental Protection Agency – Clean Water State Revolving Fund - \$1.4 billion, Drinking Water State Revolving Fund - \$557 million, and Environmental Programs - \$423 million;
- Department of Health and Human Services – LIHEAP - \$340 million, Community Health Centers - \$1 billion, Community Services Block Grant - \$295 million;
- Department of Housing and Urban Development – \$2.5 billion in CDBG funding, Economic Development Initiative Grants - \$173 million;
- Department of Justice – State and Local Law Enforcement Assistance – \$581 million with no funding for the Byrne discretionary grants, COPS Law Enforcement Technology \$168 million (funding is entirely eliminated);

- Department of Labor – Employment and Training Administration - \$49 million;
- Department of Transportation – Federal Highway Administration Transportation and Community and System Preservation (TCSP) Program - \$58 million to be redistributed into funding formula, Federal Transit Administration Transit Investments for Greenhouse Gas and Energy Reduction (TIGGER) Program - \$75 million, Federal Aviation Administration (FAA) facilities and equipment - \$200 million.

With two weeks until the current continuing resolution (CR) expires, Congress is debating whether to pass another CR to fund government operations while the House and Senate negotiate a deal on spending levels for the remaining seven months left in FY 2011. The Senate will not start work on the funding bill until after Congress returns from the Presidents Day recess, on February 28 – only five days before current government funding is set to expire. The President has stated his intention to veto H.R. 1 in its current form.

Amendment to Prohibit Beach Nourishment Expenditures Debated

On February 14th, Rep. Broun of Georgia introduced Amendment No. 246 to H.R. 1, which states: *“None of the funds made available in this Act may be used for beach replenishment projects by the Army Corps of Engineers.”*

The Amendment was debated on the floor and defeated on a recorded vote of 74-348.

FAA Reauthorization

The U.S. Senate last week passed S. 223, the FAA Air Transportation Modernization and Safety Improvement Act, by an 87-8 vote margin. The two-year, \$34.5 billion reauthorization bill is designed to modernize and improve the nation’s aviation programs and facilities. The Senate must now wait for the House of Representatives to act on its proposed four-year, \$59.7 billion FAA reauthorization bill, which passed the House Transportation and Infrastructure Committee last week also. Senators reached a compromise on beyond-perimeter flights at Washington National Airport, where currently only 12 daily flights beyond 1,250 miles are allowed. Senate Bill 223 authorizes the addition of 16 more daily beyond-perimeter flights. The bill does not increase the current passenger facility charge levels or include mandated revisions to Aviation Rescue and Firefighting (ARFF) standards, as has been included in previous legislation considered and passed by the House of Representatives during the 111th Congress.

The House and Senate intend to reach a consensus on and pass a unified FAA reauthorization legislation to be sent to the President before the FAA's latest temporary funding extension expires on March 31st. Congress has passed 17 short-term extensions since FAA's authorization officially expired on Sept. 30, 2007.

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